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Ratings

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Summary:

Wyandotte County/Kansas City Unified Government, Kansas; Appropriations; General Obligation; General Obligation Equivalent Security; Note

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Credit Profile		
US$25.5 mil GO imp and rfdg bnds ser 2020B dtd 09/17/2020 due 08/01/2030		
Long Term Rating	AA/Stable	New
US$13.045 mil Taxable GO rfdg bnds ser 2020C dtd 09/17/2020 due 08/01/2031		
Long Term Rating	AA/Stable	New
US$5.775 mil taxable spl oblig annual approp rfdg bnds ser 2020D due 12/01/2031		
Long Term Rating	AA-/Stable	New

Rating Action

S&P Global Ratings assigned its 'AA' rating to the Wyandotte County/Kansas City Unified Government (UG), Kan.'s approximately $25.5 million series 2020-B general obligation (GO) improvement and refunding bonds and approximately $13.045 million series 2020-C taxable GO refunding bonds. We also assigned our 'AA-' rating to the UG's approximately $5.775 million series 2020-D taxable special obligation annual appropriation refunding bonds.

At the same time, S&P Global Ratings affirmed its 'AA' rating on the UG's GO and GO-equivalent debt, affirmed its 'AA-' long-term rating on its appropriation debt, and affirmed its 'SP-1+' rating on its municipal temporary notes. The outlook on all ratings is stable.

The UG's full-faith-and-credit pledge, including an unlimited ad valorem property tax pledge, secures its GO debt. A portion of the UG's GO debt, including the series 2020-B and 2020-C bonds, excludes the incorporated areas of Bonner Springs, Edwardsville, and Lake Quivira, and the unincorporated area of the UG, from its taxing boundaries.

The series 2020-D bonds shall be payable solely from the amounts budgeted or appropriated out of the income and revenue provided for such year, plus any unencumbered balances from previous years. The UG's obligation to pay debt service under the bond resolution shall be from year to year only, and not constitute a mandatory payment obligation. Thus, we rate the UG's special obligation annual appropriation bonds one notch below the GO rating, reflecting our view of annual appropriation risk pursuant to our "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" (published Nov. 20, 2019).

We understand proceeds of the series 2020-B GO bonds will finance the acquisition of various public improvement projects and refinance portions of the UG's series 2010-C, 2010-D, and 2010-F bonds for debt service savings. Proceeds of the series 2020-C GO bonds and the series 2020-D bonds will be used to refinance portions of the series

2011-A bonds and the series 2010-H bonds, respectively, for debt service savings.

Lease rental payments paid by the UG to the Wyandotte County/Kansas City Unified Government Public Building Commission (PBC) secure the PBC's revenue bonds. The UG's obligation of rentals payable under the lease for its entire term are specifically exempt from portions of the provisions of Kansas' cash-basis and budget laws, and are not subject to annual appropriation, early cancellation, or termination. Certain outstanding PBC issues are subject to Kansas tax lid law, limiting the power of cities and counties to levy property taxes. Despite these limitations, we consider these resources fungible, and the UG's ability to manage them supports our view of the obligor's ability and willingness to repay the debt. Based on application of our criteria "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness," we rate the PBC bonds on par with the GO bonds, as we do not differentiate between the pledge securing the PBC bonds and the UG's general creditworthiness.

The 'SP-1+' short-term rating reflects our view of the long-term rating and UG's low market risk profile, including the authority to issue takeout debt, as well as the availability of pertinent disclosure information. State law requires the authorization of long-term takeout GO debt before the issuance of temporary notes. The temporary notes are a GO of the UG, secured by its full-faith-credit-and-resources pledge.

Credit overview

The rating reflects the strength of the UG's management team, which has demonstrated a history of conservative budgeting practices, leading to actual results outperforming budgeted assumptions. The strength of the UG's financial performance is particularly notable, given its relatively high fixed costs related to debt and pension liabilities. The rating also reflects that, while the UG's economy is considered weak relative to peers because of its lower-than-average wealth and income indicators, there has been steady growth and expansion of the tax base in recent years, which is likely to continue as a variety of economic development projects and redevelopment initiatives are currently underway.

We anticipate challenges associated with COVID-19 and the related recession will pressure the UG's budgets, as it will most local governments, during the next one to two years. In line with our view of the ongoing economic contraction, we expect sales taxes could lag historical performance. (For further information, please see "The U.S. Faces A Longer and Slower Climb From The Bottom," published June 25, 2020.) We believe the recession will test management's ability to maintain very strong reserves during the next few fiscal years. While the UG conservatively projected a 22% loss in sales tax revenue at the beginning of the pandemic and drawing reserves in fiscal 2020 to 15% of expenditures and in fiscal 2021 to 12% of expenditures, we believe actual results may end the year somewhat stronger as a result of recent monthly data showing sales tax revenue performing better than projected. We also note that the UG's minimum two months of expenditures reserve policy has a replenishment feature that requires a plan to be developed should reserves fall below the two-month minimum and included in the formulation of the five-year forecast presented during the annual budget process. Should reserves not be restored within a reasonable timeframe, we could consider lowering the rating.

Management will continue to monitor budget-to-actual performance closely and make adjustments as necessary. We believe budgetary performance could temporarily weaken with a prolonged recession, but management has identified cost-control options that it can utilize through fiscal 2021. We also think the UG's core economic structure and participation in the broad and diverse Kansas City metropolitan statistical area (MSA) will likely contribute to overall rating stability. Therefore, we do not expect to change our rating during the next few years. Although our outlook is generally for two years, we recognize the potential for downside risk because of COVID-19 and the related recession during the next six to 12 months.

The 'AA' GO rating also reflects our opinion of the UG's:

- Weak economy, with market value per capita of $56,890 and projected per capita effective buying income at 61.4%, but that is benefiting from access to a broad and diverse MSA;
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Weak budgetary performance, with a slight operating surplus in the general fund but a slight operating deficit at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 20% of operating expenditures;
- Very strong liquidity, with total government available cash at 68.1% of total governmental fund expenditures and 3.3x governmental debt service, and access to external liquidity we consider exceptional;
- Very weak debt and contingent liability profile, with debt service carrying charges at 20.9% of expenditures and net direct debt that is 242.9% of total governmental fund revenue, as well as high overall net debt at greater than 10% of market value and a large pension and other postemployment benefit (OPEB) obligation; and
- Strong institutional framework score.

Environmental, social, and governance (ESG) factors

We have analyzed the UG's environmental factors, including health and safety risks posed by COVID-19, coupled with social and governance risks relative to the economy, financial management, budgetary performance, and budgetary flexibility, as well as its debt and liability profile, and have determined all are in line with our view of the sector standard. Tornadoes and flooding are the primary environmental threats to the UG, but the UG has an emergency management plan in place, outlining specific tasks and protocols should an event occur.

Stable Outlook

Downside scenario

We could lower the rating if the UG experiences prolonged financial pressure--stemming from the pandemic-driven recession, its elevated debt and pension liabilities, or otherwise--that results in structural budget imbalance or sustained declines in reserves. In addition, we could also lower the rating if reserves were to fall below its policy level and are not replenished within a reasonable timeframe, or if the UG's budgetary performance is worse than expected.

Upside scenario

We could raise the rating if the UG's economic indicators improve to levels we consider comparable with those of higher-rated peers, along with improvement in the UG's debt and pension profile, while maintaining very strong reserves.

Credit Opinion

Weak economy

We consider the UG's economy weak. The UG, with an estimated population of 166,871, is located in the Kansas City, MO-KS MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 61.4% of the national level and per capita market value of $56,890. Overall, the UG's market value grew by 5.1% over the past year, to $9.5 billion in fiscal 2020. The county unemployment rate was 4.3% in 2019. Following a rise in unemployment to 14.9% in April 2020 because of COVID-19, the UG's preliminary rate for June 2020 fell to 10.3%.

We consider the UG's economy weak, despite its participation in the broad and diverse Kansas City MSA, mainly because of the relatively low values for projected per capita EBI and per capita market value compared with national averages. The UG's tax base is diverse, with the top 10 taxpayers making up 13.5% of total assessed value (AV) in fiscal 2020, consisting of entertainment, retail, utility, and manufacturing entities.

Employment is also diverse, with major employers including:

- Amazon Fulfilment Center (more than 5,000 employees),
- University of Kansas Health Systems (more than 5,000),
- Unified School District No. 500 of Kansas City (4,000),
- University of Kansas Medical Center (3,500), and
- Cerner Corp. (3,500).

Total AV has grown about 20% between fiscal years 2016 and 2020, or about 4% annually on average, attributable to commercial, retail, and residential development. Management expects continued growth going forward and reports that certified property values for fiscal 2021 indicate a 5.5% increase. Officials report many economic development projects are underway, including a University of Kansas downtown campus with a health center focus and new industrial and distribution facilities, as well as several mixed-use retail and multifamily residential projects. Management reports that the commission is focused on redevelopment of the downtown area and blight-reduction programs, which could also contribute to future growth in property values.

We understand that none of the UG's major employers closed permanently because of COVID-19 and, although some businesses temporarily shut down, many have reopened.

Very strong management

We view the UG's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well-embedded, and likely sustainable.

Highlights include management's:

- Use of extensive planning and analysis to devise revenue and expenditure assumptions, partly based on historical trend analysis and the use of priority-based budgeting.
- Quarterly reports on budget-to-actual results to the UG commission, coupled with a proven willingness to make

intra-year corrections to improve structural budget gaps.

- Formal financial planning, that includes five-year forecasts of revenues and expenditures, reviewed and updated annually.
- Comprehensive five-year capital improvement plan that includes project details, costs, and funding sources, annually updated and disclosed in budget documents to increase transparency.
- Formal investment management policy that parallels state regulations and calls for quarterly reports to elected officials that outline holdings and performance.
- Formal debt-management policy that outlines allowable debt types and structures. The policy requires the chief financial officer to manage and monitor debt, targets a minimum 3% net present-value savings for GO debt refundings, does not consider the use of derivatives, and limits any variable-rate debt to revenue-generating projects or capital assets. For GO debt, the policy requires the UG to strive to maintain debt per capita and debt as a percent of AV at a low-to-moderate classification, as generally viewed by the municipal bond market. For general fund-supported debt, the policy targets the debt ratio to be below 10% of total general fund expenditures and to target the combined debt ratio and pension/OPEB ratio below 25% of total general fund expenditures.
- Reserve policy that requires an available fund balance equal to at least 17% (two months) of general fund expenditures. In the event that reserves are used resulting in a balance below the two-month minimum, the policy requires a plan to be developed to replenish reserves and included in the formulation of the five-year forecast presented during the annual budget process.

Weak budgetary performance

The UG's budgetary performance is weak, in our opinion. It had slight surplus operating results in the general fund of 1.1% of expenditures, but a slight deficit result across all governmental funds of 1.2% in fiscal 2019.

Our forward-looking opinion of weak budgetary performance reflects uncertainty concerning the effect and duration of COVID-19 and the related recession on the UG. We have adjusted our ratios for recurring transfers into the general fund and debt-financed capital spending.

The UG's operating performance in fiscal 2019 is partly the result of management's conservative budgeting practices, a $2.7 million increase in property tax revenue, and a $3.4 million increase in general fund sales and use tax. Use taxes represent e-commerce, which is gaining more of the retail market share. In fiscal 2019, property tax revenues accounted for 41% of general revenues, followed by sales tax at 26%, both of which have been historically reliable revenue sources for the UG.

Due to the COVID-19 pandemic affecting the UG's sales tax revenues, officials amended the fiscal 2020 budget during the early stages of the pandemic to adjust for a projected 22% loss in sales tax compared with fiscal 2019, which would result in a 5% operating deficit. Recent sales tax data for April and May 2020 show sales tax collections coming in better than expected, and management now believes losses may be more in the range of 10%-15%. For fiscal 2021, the UG is conservatively budgeting for a 2.3% operating deficit, but is closely monitoring monthly revenue data with five months remaining in fiscal 2020 and could revise its fiscal 2021 outlook. We also expect performance across all governmental funds to be in line with historical trends.

In response to the anticipated revenue loss in fiscal 2020, officials identified budgetary options they could utilize, including the use of general fund emergency reserves, operating expenditure deferrals, debt-financing former general fund cash-funded capital, and realigning administrative costs, among others. While the majority of these options have already been taken, there are additional cuts the UG can make. The identified budgetary options resulted in $21.9 million in additional funds or savings for fiscal 2020 and $9.3 million in fiscal 2021. Should revenues come in lower than budget expectations, the UG can make personnel reductions administratively, without further commission action.

Very strong budgetary flexibility

The UG's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 20% of operating expenditures, or $42.3 million. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 20% of expenditures in fiscal 2018 and 21% in fiscal 2017.

The UG has a formal reserve policy of maintaining a fund balance equal to at least 17% of operating expenses, which it has historically met. Taking into account the uncertainty of the duration of COVID-19 and its impact on revenues, officials amended the fiscal 2020 budget to use some reserves to alleviate some budgetary pressure, if needed, and draw reserves down to 15% of expenditures. The adopted fiscal 2021 budget reflects a further drawdown of reserves to 12% of expenditures, but we believe this outlook is subject to revision, given its early adoption and as better data for the rest of fiscal 2020 flows in. Should reserves fall below its minimum 17% of operating expenditure target, the policy requires a plan to be developed to replenish reserves, which is included in the formulation of the five-year forecast presented during the annual budget process.

Very strong liquidity

In our opinion, the UG's liquidity is very strong, with total government available cash at 68.1% of total governmental fund expenditures and 3.3x governmental debt service in fiscal 2019. In our view, the UG has exceptional access to external liquidity, if necessary.

The UG's frequent issuance of GO, revenue, and sales tax bonds during the past 15 years supports our view of its exceptional access to external liquidity. Investments primarily include certificates of deposit held with local banks, various repurchase agreements, and federal agency securities, which we do not view as aggressive. We understand the UG privately placed its series 2019-C GO bonds to support the downtown grocery project. Bond terms are standard and do not contain any unusual provisions, such as acceleration, that could pressure liquidity. We expect the UG's liquidity to remain very strong and relatively stable over the next two fiscal years.

Very weak debt and contingent liability profile

In our view, the UG's debt and contingent liability profile is very weak. Total governmental fund debt service is 20.9% of total governmental fund expenditures and net direct debt is 242.9% of total governmental fund revenue. Negatively affecting our view of the UG's debt profile is its high overall net debt of 12.1% of market value.

The UG's total direct debt is approximately $1.3 billion. We understand officials plan to issue $13-$15 million in GO debt annually to address capital needs. As a result, we expect the UG's debt profile to remain very weak for the next few years.

Pension and other postemployment benefits

- In our opinion, a credit weakness is the UG's large pension and OPEB obligation. The combined required pension and actual OPEB contributions totaled 9.4% of total governmental fund expenditures in fiscal 2019. Of that amount, 8.1% represented required contributions to pension obligations and 1.2% represented OPEB payments.

- While the UG is managing these costs, we believe they could become a credit risk, and we will continue to monitor their impact, if any, on overall financial performance.

The UG participates in the following plans:

- As of June 30, 2019, the latest measurement date, the Kansas Public Employees' Retirement System (KPERS), which was 69.9% funded with a $178.2 million net pension liability; and
- As of Dec. 31, 2019, the latest measurement date, Kansas City Board of Public Utilities (KCBPU), which was 93.6% funded with a $32.6 million net pension liability.

State law defines required employer contributions to KPERS, which might not be equal to the actuarially determined contribution. The UG pays 100% of its required contribution. Based on legislation passed in 1993, the employer contribution rates certified by the KPERS' board of trustees for this group may not increase by more than the statutory cap, which for the state fiscal year 2018 was 1.2%.

Benefit and contribution provisions for KCBPU are established by, and may only be amended by, the Pension Board of Trustees. Contribution rates are determined annually by the Pension Board of Trustees. KCBPU contributes a fixed contribution rate, equal to that of the members, currently 8.50% of pensionable earnings.

Actuarial assumptions for KPERS and KCBPU include a 7.75% and 7.5% discount rate, respectively, which we view as aggressive, representing market risk and resulting in contribution volatility if the plan fails to meet assumed investment targets. In addition, contributions are likely to grow because of level payroll funding, rather than level-dollar contributions, which would result in consistent payments.

The UG also provides OPEB, including medical, dental, and vision benefits, to eligible retirees and their dependents. It funds these benefits on a pay-as-you-go basis. The UG reported a net OPEB liability of $99.6 million at fiscal year-end 2019.

Strong institutional framework

The institutional framework score for unified governments in Kansas is strong.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019

Ratings Detail (As Of August 7, 2020)		
Wyandotte Cnty / Kansas City Unif Govt mun temp nts		
Short Term Rating	SP-1+	Affirmed

Ratings Detail (As Of August 7, 2020) (cont.)		
Wyandotte Cnty / Kansas City Unif Govt GO		
Long Term Rating	AA/Stable	Affirmed
Wyandotte Cnty / Kansas City Unif Govt GO		
Long Term Rating	AA/Stable	Affirmed
Wyandotte Cnty / Kansas City Unif Govt GO		
Long Term Rating	AA/Stable	Affirmed
Wyandotte Cnty / Kansas City Unif Govt GO		
Long Term Rating	AA/Stable	Affirmed
Wyandotte Cnty / Kansas City Unif Govt GO		
Long Term Rating	AA/Stable	Affirmed
Wyandotte Cnty / Kansas City Unif Govt GO		
Long Term Rating	AA/Stable	Affirmed
Wyandotte Cnty / Kansas City Unif Govt GO		
Long Term Rating	AA/Stable	Affirmed
Wyandotte Cnty / Kansas City Unif Govt GO		
Long Term Rating	AA/Stable	Affirmed
Wyandotte Cnty / Kansas City Unif Govt GO		
Long Term Rating	AA/Stable	Affirmed
Wyandotte Cnty / Kansas City Unif Govt GO		
Long Term Rating	AA/Stable	Affirmed
Wyandotte Cnty / Kansas City Unif Govt GO (ASSURED GTY)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Wyandotte Cnty / Kansas City Unif Govt GO (BAM)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Wyandotte Cnty / Kansas City Unif Govt GO (BAM)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Wyandotte Cnty / Kansas City Unif Govt GO (BAM)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Wyandotte Cnty / Kansas City Unif Govt GO (BAM)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Wyandotte Cnty / Kansas City Unif Govt GO (BAM) (SECMKT)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Wyandotte Cnty / Kansas City Unif Govt GO		
Long Term Rating	AA/Stable	Affirmed
Wyandotte Cnty / Kansas City Unif Govt (Recovery Zone Fac Bnds-Parking Projs) APPROP		
Long Term Rating	AA-/Stable	Affirmed
Wyandotte Cnty/Kansas City Unif Govt GO		
Long Term Rating	AA/Stable	Affirmed
Wyandotte Cnty/Kansas City Unif Govt GO (BAM) (SECMKT)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Ratings Detail (As Of August 7, 2020) (cont.)		
Wyandotte County Kansas City Unified Government Public Building Commission, Kansas		
Wyandotte Cnty / Kansas City Unif Govt, Kansas		
Wyandotte Cnty / Kansas City Unif Govt Pub Bldg Comm GO		
Long Term Rating	AA/Stable	Affirmed
Wyandotte Cnty / Kansas City Unif Govt Pub Bldg Comm GO (AGM)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Wyandotte Cnty / Kansas City Unif Govt Pub Bldg Comm GO (AGM)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Wyandotte Cnty / Kansas City Unif Govt Pub Bldg Comm GO (AGM)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Wyandotte Cnty/Kansas City Pub Bldg Comm GOEQUIV		
Long Term Rating	AA/Stable	Affirmed
Wyandotte Cnty/Kansas City Pub Bldg Comm (Wyandotte Cnty / Kansas City Unif Govt) GOEQUIV		
Long Term Rating	AA/Stable	Affirmed
Wyandotte Cnty/Kansas City Pub Bldg Comm (Wyandotte Cnty / Kansas City Unif Govt) GOEQUIV		
Long Term Rating	AA/Stable	Affirmed
Wyandotte Cnty/Kansas City Pub Bldg Comm GOEQUIV		
Long Term Rating	AA/Stable	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.